

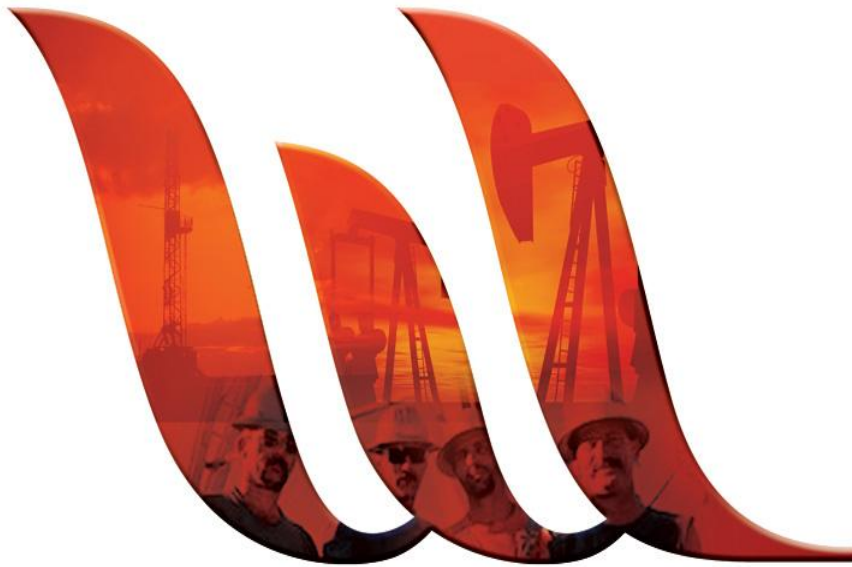
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**2010 Q2 Report**

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**WestFire**  
ENERGY LTD

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## Profile

WestFire Energy Ltd. is a public junior oil and gas company focused on building shareholder value by growing per share production and reserves. WestFire has built, and is now drilling, a large inventory of low risk Viking light oil horizontal locations in its core areas of Redwater, Alberta and West Central Saskatchewan. The Company also has the Bashaw, Alberta Mannville multi-zone gas project and the Lloydminster, Alberta Lloyd/Sparky heavy oil horizontal project. WestFire is focused on exploiting its assets in each of its core areas by utilizing advanced technical and operational methods. Each core area has the following key attributes:

- (1) Significant undeveloped land with high working interests and operatorship,
- (2) Capacity for large, repeatable, scalable reserves and/or multi-zone potential,
- (3) Wholly-owned or available infrastructure, and
- (4) All-season access.

## Message to Our Shareholders

During the second quarter of 2010, WestFire Energy Ltd. ("WestFire" or "the Company") continued to delineate the Viking oil resource play by positively advancing our knowledge base. Despite being hampered by wet weather, our accomplishments are as follows:

- Produced 2,374 barrels of oil equivalent per day (boepd) during Q2 2010, compared to 1,327 boepd during Q2 2009, an increase of 79%;
- Funds flow from operations increased 117% to a \$4,454,925 during Q2 2010 from \$2,054,571 during Q2 2009;
- Funds flow from operations per share improved 33% to \$0.12 per share in Q2 2010 from \$0.09 in Q2 2009;
- Reduced net general and administration expenses per boe by 13% to \$3.31 in Q2 2010 from \$3.82 in Q2 2009;
- Successfully drilled 12 (10.4 net) horizontal oil wells in the second quarter of 2010;
- Completed an equity issue of 3.75 million shares at \$8.00 per share for gross proceeds of \$30 million;
- Increased our bank line to \$42 million;
- WestFire's liquidity remains strong with our \$42 million bank line undrawn at June 30, 2010;
- Closed and integrated a complimentary acquisition of Viking oil assets in the Provost Area of Alberta;
- Entered into a lease option and drilling agreement that provides access to approximately 40 sections of undeveloped land with Viking light oil potential in the Dodsland/Kerrobert area of West Central Saskatchewan.
- Increased its Viking land inventory to 246 (231 net) sections from 183 (161 net) sections at year-end 2009 through acquisitions, crown land sales and farm-in agreements. This translates into a future drilling inventory in excess of 500 potential horizontal Viking oil development locations.

### Operational Review

Little new production was brought on stream during the second quarter due to spring break-up and forest fires in the Redwater Area of Alberta followed by an abnormally wet spring in Western Canada. In addition, Q2 2010 was a period of load fluid recovery from the Q1 2010 drilling program.

A total of twelve (10.4 net) successful horizontal oil wells were drilled in the second quarter. On the Viking play, four (3.0 net) wells were drilled at Redwater, Alberta, and three (3.0 net) wells were drilled in West Central Saskatchewan. In addition, four (4.0 net) wells were drilled in a heavy oil pool in Lloydminster, Alberta and one (0.4 net) Cardium oil well was drilled at Willesden Green, Alberta. Completion and equipping of these wells will occur in the latter part of Q3 2010.

### Outlook

In the second quarter of 2010, WestFire upwardly revised its 2010 capital expenditure budget to \$80 million. This capital program includes the drilling of 49 (46 net) wells which represents 73% of the total capital expenditures. A total of 25 (21.3 net) wells have been drilled in the first half of 2010. Production additions from wells drilled plus those planned in the last half of the year from this expanded capital budget has allowed the Company to increase its 2010 guidance for average production to 2,750 boepd (greater than 50% oil) and December 2010 average production rate of 3,600 boepd (greater than 60% oil), which is approximately 71% higher than our 2009 exit rate. During Q3 2010, netbacks will be affected by weak gas prices and the additional operating expenses resulting from the annual property tax payments.

The Company believes that it is well positioned to execute its business strategy with an extensive, resource-based drilling inventory focused on the Viking formation. The drilling inventory includes in excess of 500 potential horizontal Viking oil development locations which represent numerous years of drilling. WestFire is in the enviable position of having a clean balance sheet, unused bank lines, a large inventory of light oil drilling opportunities and a growing production base that is oriented towards light oil.

On behalf of the Board of Directors,

(signed)

Lowell E. Jackson, P.Eng.

President & Chief Executive Officer

## Management's Discussion and Analysis

WestFire Energy Ltd. ("WestFire" or "the Company") is a public company engaged in the exploration for, and the development and production of, petroleum and natural gas in Western Canada, and has a fiscal year end of December 31.

This Management's Discussion & Analysis ("MD&A") is a review of how WestFire performed during the period covered by the financial statements, and of WestFire's financial condition and future prospects. The MD&A complements and supplements the financial statements of WestFire, and should be read in conjunction with the accompanying unaudited consolidated interim financial statements and the related notes for the period ended June 30, 2010 of WestFire and the audited consolidated financial statements and related notes and MD&A for the year ended December 31, 2009. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Readers should read the Legal Advisories section at the end of this MD&A. WestFire's Board of Directors has reviewed and, on the recommendation of the Audit Committee, has approved the financial statements and MD&A. This MD&A is effective August 12, 2010.

Financial (\$'s except share and production information)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Oil and gas revenues	9,290,475	4,224,631	20,108,592	9,001,166
Cash provided by operating activities	3,091,852	2,870,677	9,769,469	2,326,004
Funds flow from operations <sup>(1)</sup>	4,545,925	2,054,571	9,814,003	4,040,251
Per share – basic and diluted <sup>(1)</sup>	0.12	0.09	0.27	0.19
Net income (loss)	(842,068)	(1,267,400)	384,984	(3,381,083)
Per share – basic and diluted	(0.02)	(0.06)	0.01	(0.16)
Capital expenditures (including non-cash)	22,710,771	6,721,746	40,131,478	9,331,090
Common shares outstanding – basic	39,035,315	26,512,730	39,035,315	26,512,730
Common shares outstanding – diluted	39,447,554	26,512,730	39,437,501	26,512,730
Weighted average common shares – basic	36,758,831	21,887,153	35,979,044	21,165,280
Weighted average common shares – diluted	37,171,070	21,887,153	36,381,230	21,165,280
<b>Sales Volumes</b>				
Oil and NGL (bbls per day)	1,017	450	1,046	511
Natural gas (Mcf per day)	8,137	5,259	8,149	5,498
Barrels of oil equivalent (boe per day) <sup>(2)</sup>	2,374	1,327	2,405	1,427

<sup>(1)</sup> The reader is referred to the section - "Non-GAAP Measurements".

<sup>(2)</sup> The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's".

### Overview

As a result of acquisitions to date, WestFire has built a large base of opportunities on an emerging Viking oil resource play in the West Central Saskatchewan and Redwater, Alberta areas. During the second quarter of 2010, WestFire expanded its Viking opportunity base to the Provost, Alberta area through the acquisition of three private companies. The Provost property has significant development potential with little exploration risk as it is currently drilled on quarter section spacing with the opportunity to down space and infill drill either horizontally or vertically on the 13 sections of undeveloped spacing units. Also included in the acquisition are wholly owned processing facilities.

WestFire's drilling and completion activities during the second quarter included the drilling of four (3.0 net) horizontal oil wells in the Redwater area. In addition, the Company drilled three (3.0 net) horizontal oil wells in West Central Saskatchewan, four (4.0 net) heavy oil wells in Lloydminster, Alberta and one (0.4 net) horizontal oil well in the Willesden Green area of Alberta. As most of these activities were carried out in June 2010, WestFire will be completing and equipping these wells during Q3 2010. Many of these operations were slowed by unusually wet field conditions due to heavy and persistent rain.

## Oil and gas production

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Sales Volumes</b>				
<b>Oil and NGL (bbls per day)</b>	<b>1,017</b>	450	<b>1,046</b>	511
<b>Natural gas (Mcf per day)</b>	<b>8,137</b>	5,259	<b>8,149</b>	5,498
<b>Barrels of oil equivalent (boe per day)</b>	<b>2,374</b>	1,327	<b>2,405</b>	1,427

Volumes have increased during the first six months of 2010 compared to the same period of 2009 as a result of new production from WestFire's acquisitions and drilling. Of the 13 wells drilled in Q1 2010, all were equipped and recovering completion fluid by late May with the exception of the one vertical well drilled in Redwater which is awaiting completion. Oil and natural gas volumes during second quarter of 2010 were similar to first quarter of 2010 as natural declines, were offset by Q1 drilling tied in during the second quarter. Oil production is expected to increase throughout the third quarter of 2010 as a result of the wells drilled during the first and second quarter of 2010 being brought on production in Q3 2010. The Provost acquisition added approximately 85 boe per day from May 1, 2010.

## Petroleum and natural gas revenues

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Oil and NGL revenues</b>	<b>6,195,533</b>	2,462,510	<b>13,077,088</b>	4,550,128
<b>Per barrel before hedging</b>	<b>66.90</b>	60.10	<b>69.04</b>	49.23
<b>Natural gas</b>	<b>3,094,942</b>	1,762,121	<b>7,031,504</b>	4,451,038
<b>Per Mcf before hedging</b>	<b>4.18</b>	3.68	<b>4.77</b>	4.47

Oil revenues increased 152% in the second quarter of 2010 over the same period of 2009. The increase is primarily a result of a 126% volume increase and an 11% increase in oil prices from the second quarter of 2009. Oil revenues for the first six months of 2010 increased 187% over the first six months of 2009. The increase can be attributed to an increase in volumes of 105% combined with a 40% increase in price. The West Texas Intermediate price averaged \$78.37US per bbl in the first six months of 2010 compared with \$51.35US per bbl in the first six months of 2009 and averaged \$78.03US per bbl in the second quarter of 2010 compared with \$59.62 in the second quarter of 2009. During first half of 2010, WestFire's oil and NGL volumes consisted of 30% (2009 - 27%) heavy crude oil for which pricing differentials have improved significantly compared to historical levels. The light/heavy crude oil differential averaged \$11.82 per bbl or 15% of WTI in the first six months of 2010 compared with \$8.46US per bbl or 16% of WTI in the first six months of 2009.

Gas revenues increased 76% in the second quarter of 2010 over the same period of 2009. The increase is a result of volume increases of 55% and increased gas prices of 14% from the average price received during Q2 2009. The average AECO daily reference price of \$3.69 per GJ for Q2 2010 represents a 13% increase from Q1 2009 price of \$3.27 per GJ. For the first six months of 2010 gas revenue increased 58% over the first six months of 2009. The increase can be attributed to a volume increase of 48% combined with a moderate price increase of 7% year over year. The average AECO daily reference price of \$4.19 per GJ for the first six months of 2010 represents a 6% increase from the price for the first six months of 2009 of \$3.97 per GJ. Most of WestFire's gas volumes receive a premium to the AECO reference price due to its high heat content. Lower natural gas prices continue to reflect higher than average storage levels and stable supply.

## Price Risk Management

WestFire has entered into contracts to manage the volatility of commodity prices. For Q2 2010, the Company had a net realized gain of \$615,195 (Q2 2009 – gain of \$569,065).

At June 30, 2010, a current asset of \$2,110,548 and a long term asset of \$262,223 (December 31, 2009 – current liability of \$174,730) was recorded on the Company's balance sheet resulting in an unrealized derivative gain of \$2,547,501 for the six months ended June 30, 2010 (2009 – loss of \$2,042,486).

In July 2010, WestFire entered into oil hedge contracts on 600 barrels per day for Q3 2010 through to Q2 2011. The Company has used a combination of fixed price swaps and costless collars.

The Company has hedged natural gas prices on 3,250 GJs per day through fixed price swaps for the remainder of 2010 at an average of \$5.50Cdn per GJ through October 2010, increasing to \$5.63Cdn per GJ for November and December 2010. In addition, WestFire has hedged natural gas prices on 2,500 GJs per day from January 2011 to October 2011 through fixed price swaps at an average of \$5.82Cdn per GJ from January 2011 to March 2011, decreasing to \$5.54Cdn per GJ from April 2011 to October 2011.

The Company has outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel or GJ (Cdn \$)	Commencement date	Termination date
<b>Oil and NGL</b>				
Swap (WTI)	200 barrels per day	\$83.60	April 2010	September 2010
Swap (WTI)	150 barrels per day	\$85.10	July 2010	September 2010
Costless Collar (WTI)	100 barrels per day	Floor \$75.00 Ceiling \$96.00	July 2010	December 2010
Swap (WTI)	250 barrels per day	\$85.50	October 2010	December 2010
Costless Collar (WTI)	250 barrels per day	Floor \$75.00 Ceiling \$97.00	October 2010	December 2010
Swap (WTI)	200 barrels per day	\$85.40	January 2011	June 2011
Costless Collar (WTI)	200 barrels per day	Floor \$75.00 Ceiling \$95.00	January 2011	June 2011
Costless Collar (WTI)	150 barrels per day	Floor \$75.00 Ceiling \$98.35	July 2010	September 2010
Costless Collar (WTI)	100 barrels per day	Floor \$80.00 Ceiling \$96.80	January 2011	June 2011
Swap (WTI)	100 barrels per day	\$89.00	January 2011	June 2011
Swap (WTI) <sup>(1)</sup>	150 barrels per day	\$84.50	July 2011	September 2011
Swap (WTI) <sup>(1)</sup>	150 barrels per day	\$86.40	July 2011	September 2011
Costless Collar (WTI) <sup>(1)</sup>	150 barrels per day	Floor \$75.00 Ceiling \$92.20	July 2011	September 2011
Costless Collar (WTI) <sup>(1)</sup>	150 barrels per day	Floor \$75.00 Ceiling \$95.10	July 2011	September 2011
<b>Natural Gas</b>				
Swap (AECO)	1,250 GJ's per day	\$5.35	November 2009	October 2010
Swap (AECO)	1,250 GJ's per day	\$5.95	November 2009	October 2010
Swap (AECO)	750 GJ's per day	\$5.02	January 2010	December 2010
Swap (AECO)	2,000 GJ's per day	\$5.83	November 2010	March 2011
Swap (AECO)	500 GJ's per day	\$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ's per day	\$5.48	April 2011	October 2011

<sup>(1)</sup> Entered into subsequent to June 30, 2010

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the quarter ended June 30, 2010 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL (\$/bbl)	\$1.00	\$ 84,877
Natural gas (\$/Mcf)	\$0.10	\$ 67,871

**Crown and other royalties**

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Total</b>	<b>775,916</b>	146,299	<b>2,025,883</b>	1,117,075
<b>Per boe</b>	<b>3.59</b>	1.21	<b>4.65</b>	4.33
<b>% of revenue</b>	<b>8.4%</b>	3.5%	<b>10.1%</b>	12.4%

Total royalties in the second quarter of 2010 increased from the same period in 2009 largely due to the increased revenues. For the three months ended June 30, 2010 royalties increased on a per boe basis and as a percentage of revenue as a result of higher commodity prices compared to the same period in 2009. In addition, 2009 was lower as it included a large recovery relating to an adjustment to the gas cost allowance for prior periods. Royalties for the first six months of 2010 have increased on a per boe basis from the same period in 2009 largely due to the increase in revenues and commodity prices. These increases are somewhat offset by recoveries resulting from a gas cost allowance adjustment relating to prior periods. Crown royalties have declined as a percent of revenue for the first six month of 2010 compared to the same period in 2009 as a result of the Company's production in Alberta benefitting from the maximum 5% Crown royalty during the first year of production from new wells. The Company continues to take full advantage of the drilling royalty credit and reduced royalty rate incentives.

**Operating expenses**

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Total</b>	<b>3,352,151</b>	1,891,222	<b>6,758,550</b>	4,255,678
<b>Per boe</b>	<b>15.52</b>	15.66	<b>15.53</b>	16.48
<b>% of revenue</b>	<b>36.1%</b>	44.8%	<b>33.6%</b>	47.3%

Operating costs were \$15.52 per boe during Q2 2010 which is a slight decrease from Q2 2009. Operating costs in total are higher than 2009 as WestFire acquired properties in June and December of 2009, but have decreased as a percentage of revenue as volumes and commodity prices have increased. Operating cost per boe have also benefitted by the addition of new production, particularly in the Redwater and Bashaw areas. Production from new wells drilled in 2009 and the first quarter of 2010 continue to reduce the average cost per boe.

**Transportation expenses**

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Total</b>	<b>261,017</b>	163,090	<b>507,978</b>	294,288
<b>Per boe</b>	<b>1.21</b>	1.35	<b>1.17</b>	1.14
<b>% of revenue</b>	<b>2.8%</b>	3.9%	<b>2.5%</b>	3.3%

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, and pipeline tariffs. The large increase from 2009 to 2010 is a result of the increase in volumes as previously noted. On a per boe basis and on a percentage of revenue basis, transportation costs are fairly consistent.

**Netbacks**<sup>(1)</sup>

\$ per boe	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenue</b>	<b>43.00</b>	34.99	<b>46.20</b>	34.85
<b>Realized derivative gains</b>	<b>2.85</b>	4.71	<b>1.89</b>	8.51
<b>Royalties</b>	<b>(3.59)</b>	(1.21)	<b>(4.65)</b>	(4.33)
<b>Operating expenses</b>	<b>(15.52)</b>	(15.66)	<b>(15.53)</b>	(16.48)
<b>Transportation expenses</b>	<b>(1.21)</b>	(1.35)	<b>(1.17)</b>	(1.14)
<b>Netbacks</b>	<b>25.53</b>	21.48	<b>26.74</b>	21.41

<sup>(1)</sup> The reader is referred to the section - "Non-GAAP Measurements".

Netbacks have improved in the second quarter of 2010 over the same period in 2009 as a result of higher oil prices, offset by lower realized derivative gains and higher royalties. Netbacks have improved in the first six months 2010 over the first six months of 2009 as a result of higher oil prices and lower operating costs, which on an aggregate basis, more than offset the impact of a 78% decrease in realized derivative gains.

**General and administration ("G&A") expenses**

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Gross G&amp;A expenses</b>	<b>1,116,883</b>	666,501	<b>2,285,797</b>	1,389,460
<b>Less: capitalized</b>	<b>(401,068)</b>	(205,110)	<b>(806,348)</b>	(409,657)
<b>Net G&amp;A expenses</b>	<b>715,815</b>	461,391	<b>1,479,449</b>	979,803
<b>Per boe</b>	<b>3.31</b>	3.82	<b>3.40</b>	3.79

G&A expenses decreased on a per boe basis due to the growth in production. At the end of June 2010, WestFire had 21 office staff. In accordance with its full cost accounting policy, WestFire capitalizes G&A expenses associated with exploration and development activities. Gross and net general and administration expenses increased the first six months of 2010 compared with the first six months of 2009 as a result of the various acquisitions which required additional staffing, office space and overhead. Additionally, as of January 1, 2010 the Company adopted Section 1582 "Business Combinations" of the CICA Handbook which requires all transaction costs to be expensed, which previously were capitalized as part of the purchase price. Accordingly, the Company has expensed approximately \$70,000 of transactions costs associated with the Provost acquisition. The Company anticipates G&A expenses per boe will decrease as production from drilling programs come on during the second half of 2010.

**Interest expense**

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Interest expense</b>	<b>210,765</b>	72,223	<b>250,496</b>	312,048

During the second quarter of 2010, the Company expanded its credit facility to \$42 million incurring a one-time fee of \$120,000. The Company raised \$30 million of equity during the second quarter and used some of the proceeds to fully pay down the bank debt. The bank line remained unutilized at June 30, 2010.

### Stock based compensation

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Gross stock based compensation</b>	<b>839,284</b>	280,157	<b>1,117,016</b>	559,610
<b>Less: capitalized</b>	<b>(198,890)</b>	(53,316)	<b>(265,212)</b>	(106,632)
<b>Net stock based compensation</b>	<b>640,394</b>	226,841	<b>851,804</b>	452,978

Stock based compensation is a non-cash expense, which represents the estimated fair value of stock based compensation granted to employees as part of WestFire's incentive package. Compensation costs attributable to the common share stock options granted to employees or directors are measured at fair value at the grant date and expensed to stock based compensation or capitalized to property, plant and equipment over the expected vesting time frame with a corresponding increase to contributed surplus. The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding common shares of the Company. These options have a term of five years to expiry and have a three year vesting period from the date of grant. In accordance with its full cost accounting policy, WestFire capitalizes stock based compensation expenses associated with exploration and development activities. During the second quarter of 2010, the Company issued 15,000 options at an exercise price of \$8.27 per share. Also during the second quarter, 43,333 options were exercised and no options were forfeited. During the first six months of 2010, the Company granted 1,272,000 options at an average exercise price of \$8.03 per share, 74,999 options were exercised while an additional 43,334 options were forfeited. As at June 30, 2010, there were 3,065,967 options outstanding compared with 1,867,300 options outstanding as at June 30, 2009.

### Depletion, depreciation and accretion (DD&A)

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Depletion and depreciation</b>	<b>5,284,757</b>	2,719,451	<b>10,261,417</b>	5,944,787
<b>Accretion</b>	<b>164,084</b>	87,159	<b>307,299</b>	173,073
<b>Total</b>	<b>5,448,841</b>	2,806,610	<b>10,568,716</b>	6,117,860
<b>Per boe</b>	<b>25.22</b>	23.25	<b>24.28</b>	23.69

Depletion is calculated based on the percentage of proved reserves produced during the period multiplied by the adjusted full cost pool. The adjusted full cost pool includes future development costs and excludes the cost of undeveloped lands and salvage value of equipment. For the second quarter of 2010, depletion and depreciation of property, plant and equipment and the accretion of the asset retirement obligations ("DD&A") increased 94% compared to the same period in 2009. For the six months ended June 30, 2010, DD&A increased 73% compared to the same period in 2009. The increase in DD&A expense was due to the increased size of the Company as a result of asset acquisitions in June and December of 2009 and April 2010.

### Income taxes

For the first half of 2010, the income tax expense was \$685,751, as compared to a recovery of \$997,692 for the same period in 2009. The recovery in 2009 was due to a loss from operations, the expense in 2010 is a result of increased netbacks combined with higher volumes generating income. For the first six months of 2010, the income tax expense was \$685,781, as compared to a recovery of \$997,692 for the first six months of 2009. Higher netbacks during the first six months of 2010 and lower costs per unit have resulted in net income as opposed to the net loss for the same period in 2010. At June 30, 2010, WestFire has approximately \$294 million in tax pools and \$18 million in investment tax credits to shelter future taxable income.

Current taxes of \$129,751 for six months ended June 30, 2010 were related to Saskatchewan capital taxes and the related resource royalty surcharge ("SCT"). In March 2009, the Company found an error in the 2005 Capital tax return for one of the acquired companies. The error resulted in additional tax payable of \$126,794. The SCT for the first half of 2009 approximated \$100,000. The increase in SCT of 29% can be attributed to increased revenues from the Company's Saskatchewan properties.

### Net income and comprehensive income

Net income and comprehensive income for the six months ended June 30, 2010 was \$384,984 compared to a net loss of \$3,381,083 during the same period in 2009. The net income in 2010 is attributable to a combination of higher production volumes and oil prices and lower costs. Basic and diluted net income per share for the six months ended June 30, 2010 was \$0.01. This is compared to basic and diluted net loss per share of \$0.16 per share for the same period in 2009.

### Liquidity and capital resources

During the second quarter of 2010, the Company's bank facility which is a revolving credit facility was increased to \$42,000,000. The interest rate charged on the bank facility ranged from the bank's prime plus 1.0% to prime plus 2.0% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the facility will be reviewed on May 31, 2011. This facility is secured by the assets of the Company.

On May 25, 2010, the Company issued 3,750,000 shares at \$8.00 per share for total proceeds of \$30 million. These funds were used to fund the acquisition of three private companies for \$8,007,027, repay the bank debt and to accelerate the Company's 2010 Viking development program.

At June 30, 2010, the Company's bank line was undrawn, while accounts payable exceeded current assets (excluding the future tax asset and risk management contracts of \$11,413,548) by \$1,885,288 resulting in total net debt of this same amount.

### Capital expenditures

(\$)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Land	791,789	20,308	1,423,644	741,641
Acquisitions	7,468,360	7,946,457	7,186,282	7,946,457
Geological and geophysical	249,966	243,386	618,938	474,406
Drilling and completions	9,013,581	615,972	24,625,994	2,069,901
Equipment and facilities	2,330,368	183,311	3,391,403	381,283
Office equipment	-	-	10,095	1,350
Cash funded capital expenditures	19,854,064	9,009,434	37,256,356	11,615,038
Asset acquisition	2,275,779	(2,678,999)	2,275,779	(2,678,999)
Additions to asset retirement obligations	382,039	337,995	334,132	288,419
Capitalized stock based compensation	198,890	53,316	265,212	106,632
Capital expenditures	22,710,772	6,721,746	40,131,479	9,331,090

### Capital program for 2010

During Q2 2010, WestFire participated in the drilling of twelve (10.4 net) wells. WestFire operated nine of the wells drilled during the second quarter of 2010. Three (3.0 net) of the operated wells were horizontally drilled on its West Central Saskatchewan Viking lands at Plato, four (4.0) were horizontally drilled wells on its Lloydminster heavy oil prospect. Four (3.0 net) were horizontally drilled in the Redwater area of Alberta and one (0.4 net) was horizontally drilled in the Willesden Green area of Alberta. As a result of poor weather conditions, none of the wells were completed during the second quarter. The three Plato wells were completed in July 2010 and two were on production by late July. The four Redwater wells and the well in Willesden Green are expected to be completed and on production in August 2010. The four Lloydminster wells drilled in Q2 2010 plus three additional wells drilled in July and August will be completed in August. In June 2010, WestFire entered into a lease option and drilling agreement that provides WestFire with access to approximately 40 sections of undeveloped land with Viking light oil potential in the West Central Saskatchewan area. WestFire has committed to drill two horizontal wells (or four vertical wells) on these properties by October 2011. On April 30, 2010 WestFire acquired three private companies with oil and natural gas assets in the Provost area of Alberta, valued at \$9.7 million.

On March 3, 2009, The Alberta government introduced a drilling royalty credit for new conventional oil and gas wells up to \$200 per meter drilled. As at June 30, 2010, approximately \$2,255,360 in Alberta drilling credits have been earned and recognized as a reduction to capital spending. Additional credits will be earned and recognized through WestFire's active drilling program in Q2 and Q3 2010.

The remaining \$40 million of the 2010 capital program will be spread between the Companies core areas of Redwater, Lloydminster, Provost and Bashaw in Alberta and West Central Saskatchewan.

### **Goodwill**

The goodwill balance of \$1,489,000 is the result of the acquisition of three private companies that held an interest in the Provost property on April 30, 2010. In accordance with Canadian GAAP, goodwill is not amortized but is subject to an annual impairment test. For the purpose of impairment testing, the fair value of goodwill is compared to the fair value of the Company as a whole less the fair value of the Company's identifiable assets and liabilities. A write-down of the carrying value of goodwill may be required if the fair value of the identifiable assets, less the fair value of liabilities, exceed the value of the Company, being primarily the value of its oil and natural gas reserves. There was no impairment of goodwill as of June 30, 2010.

### **Economic Environment**

The current economic environment outlook is for weak economic growth with a chance that the economy will slip into a second recession. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt. Maintaining our financial flexibility is of great importance in case the current commodity and credit markets deteriorate again. In addition, financial flexibility allows WestFire to capitalize on farm-in and acquisition opportunities in the Company's core areas of operations while profitably expanding the productive capacity of WestFire.

### **Related party transactions:**

The following transactions with related parties were recorded at the exchange amount:

- (a) A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the six months ended June 30, 2010, included in general and administrative expenses, share issue expenses and transaction costs are amounts totaling \$ 80,425 (2009 - \$49,563) and \$96,901 (2009 - \$80,988) respectively, charged to the Company by BDP. At June 30, 2010, \$177,326 (December 31, 2009 - \$560,934) was included in accounts payable.
- (b) During the second quarter of 2010, the Company submitted \$24,900 to the Canada Revenue Agency on behalf of an employee for tax on stock options exercised during the quarter. This amount is recoverable from the employee and at June 30, 2010 was included in accounts receivable.

## Commitments

- (a) The Company has a commitment to lease office space for \$46,883 per month from March 1, 2010 to November 30, 2010. The Company negotiated an extension to this lease for \$27,094 per month from December 1, 2010 to November 30, 2013. A portion of the office space has been subleased until November 30, 2010 for \$6,000 per month. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$260,554	\$(30,000)	\$230,554
2011	\$325,128	-	\$325,128
2012	\$325,128	-	\$325,128
2013	\$298,034	-	\$298,034

- (b) As part of the acquisition of Racing Resources Ltd. on November 14, 2008, the Company assumed a commitment for an office lease, at \$11,520 per month until December 31, 2012. The Company has sublet this space for the balance of the lease. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$69,120	\$(64,218)	\$4,902
2011	\$138,237	\$(79,657)	\$58,580
2012	\$138,237	\$(79,657)	\$58,580

- (c) At June 30, 2010, the Company had committed to vehicle leases for the purposes of field operations. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31,	
2010	\$54,998
2011	\$41,288
2012	\$3,231

- (d) During the second quarter of 2009, the Company issued flow-through common shares and had until December 31, 2010 to expend \$1,541,938 on qualifying flow-through expenditures and to renounce those expenditures to the investors. The Company has incurred all of these expenditures as of June 30, 2010 and renounced the related tax benefits in February of 2010.
- (e) During the second quarter of 2010, WestFire committed to drill a minimum of two horizontal wells in West Central Saskatchewan. The commitment is pursuant to a lease option agreement with an industry partner. The company expects to satisfy this drilling commitment at an estimated cost of \$2,800,000. There will be a penalty of \$750,000 per horizontal well if not drilled by October 2011.

## Off-balance sheet obligations and financial instruments

The Company has not entered into any off-balance sheet transactions.

## International Financial Reporting Standards

On January 1, 2011 International Financial Reporting Standards ("IFRS") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by WestFire for the year ending December 31, 2010, including the opening balance sheet as at January 1, 2010. The project is being managed in-house by an accounting professional who has engaged in IFRS educational programs and continues to develop the Company's adoption of IFRS. The Company's auditors will be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets under full cost. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. WestFire currently anticipates that it will use this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business Combinations – IFRS 1 would allow WestFire to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows WestFire an exemption on IFRS 2, "Share-Based Payments" to equity instruments which vested before WestFire's transition date to IFRS.

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, WestFire has identified key differences that will impact the financial statements and the current status of those items:

- Exploration and Evaluation ("E&E") expenditures – On transition to IFRS, WestFire will re-classify all E&E expenditures that are currently included in the PP&E balance on the consolidated balance sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.
- Property, plant and equipment – This includes oil and gas assets in the development and production phases. The Company has allocated the amount recognized under current Canadian GAAP as at January 1, 2010 using both reserve volumes and reserve values to the assets at an area level. WestFire is evaluating the outcome of each calculation.
- Depletion expense – On transition to IFRS WestFire has the option to base the depletion calculation using either proved reserves or proved and probable reserves. WestFire has not concluded at this time which method it will use.
- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed on specific segments of PP&E ("cash generating unit") as opposed to the entire PP&E balance which is currently required under Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level. WestFire has determined its cash generating units for the purpose of impairment testing.
- Share based payments – The Company has determined the major differences from current Canadian GAAP that would impact the Company such as treating graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. The Company is currently performing the revised share-based payment expense calculations under IFRS.
- Provisions – The major difference between the current Canadian standard and IFRS appears to be the discount rate used to measure the asset retirement obligation ("ARO"). Under the current Canadian standard a credit adjusted risk free rate is used, whereby the IFRS indicates the use of a risk free rate. A lower discount rate will increase the ARO liability and on adoption, that increase will be charged to retained earnings. The Company is currently determining the discount rate to be used.
- Flow-through shares – IFRS has no standard for the accounting treatment of flow-through shares and the associated tax renouncement. WestFire has not concluded at this time what accounting methodology will be used.
- Due to the recent withdrawal of the exposure draft on IAS 12 - Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 - Provisions, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition.

In additions to the accounting policy differences, WestFire's transition to IFRS will impact the internal controls over financial reporting, the disclosure and procedures and information technology ("IT") systems as follows:

- Internal controls over financial reporting – As the review and analysis of WestFire's accounting policies is completed, an assessment will be made to determine changes required to internal controls over financial reporting. This will be an ongoing process in 2010 to ensure that changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.
- Disclosure controls and procedures – Throughout the transition process, WestFire will be assessing stakeholder's information requirements and will ensure that adequate and timely information is provided while ensuring the Company maintains its due process regarding information that is disclosed.
- IT Systems – WestFire has assessed the readiness of its accounting software and continues to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.

Management is continuing to finalize its accounting policies and choices and as such is unable to quantify the impact on the financial statements of adopting IFRS. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to WestFire's adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

### Summary of Quarterly Results

(\$000, except per share amounts)	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and gas sales	9,290	10,818	6,957	4,271	4,225	4,777	5,967	8,005
Net income (loss)	(842)	1,227	11,829	(1,812)	(1,267)	(2,114)	934	4,041
Net income (loss) per share – basic and diluted	(0.02)	0.03	0.43	(0.07)	(0.06)	(0.10)	0.06	0.25
Cash flow from operating activities	3,092	6,678	2,585	1,671	2,871	(545)	3,869	3,267
Cash flow from operating activities per share – basic and diluted	0.08	0.19	0.09	0.06	0.13	(0.03)	0.19	0.20
Funds flow from operations	4,546	5,268	2,674	681	2,054	1,986	2,895	2,943
Funds flow from operations per share – basic and diluted	0.12	0.15	0.10	0.03	0.09	0.09	0.18	0.18
Working capital (deficiency) <sup>(1)</sup>	9,685	(3,950)	6,592	(2,562)	3,342	(9,039)	(7,444)	1,286
Total assets	215,437	194,257	179,927	117,938	113,115	106,354	107,627	79,324
Total liabilities	26,759	23,433	21,604	17,553	11,199	25,258	24,324	14,769
Weighted average shares – basic (thousands)	36,759	35,191	27,734	26,513	21,887	20,435	16,327	16,288
Weighted average shares – diluted (thousands)	37,171	35,499	27,734	26,513	21,887	20,435	16,327	16,288
Capital expenditures (including non-cash)	22,711	17,421	32,998	6,750	6,722	2,609	14,079	5,059

<sup>(1)</sup> Working capital is calculated as current assets less current liabilities.

### Disclosure Controls and Procedures

WestFire's disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"), have been designed by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), or caused to be designed under their supervision, to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by WestFire in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. Additionally, pursuant to NI 52-109, the Company's CEO and CFO are responsible for designing and evaluating the internal controls over financial reporting ("ICOFR") or causing them to be designed or evaluated under their supervision. ICOFR is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information resulting in the preparation of financial statements for external purposes which are in accordance with Canadian GAAP. Because of their inherent limitations, ICOFR may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well designed, have inherent limitations. Moreover, any control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met. WestFire's CEO and CFO have concluded that the Company's ICOFR are not effectively designed and operating as intended due to the inherent, identified ICOFR weaknesses. Specifically, due to the limited number of finance and accounting personnel at WestFire as a result of its relatively small organization structure, the Company does not have comprehensive segregation of incompatible duties whereby numerous personnel possess the technical knowledge to address and review complex accounting matters relating to corporate taxation or any non-routine accounting transactions that may arise. As a result of these identified weaknesses in WestFire's ICOFR, there is a more than remote likelihood that a material misstatement would not be prevented or detected in a timely manner. WestFire's Management has processes in-place to mitigate, but not fully compensate, the financial reporting risks arising from the identified weakness, including CEO and CFO oversight of all material transactions and related accounting records and daily oversight by the senior personnel of the Company.

In addition, WestFire's Audit Committee reviews on a quarterly and annual basis the financial statements and key risks of the Company and queries Management about significant transactions.

In order to remediate the identified weaknesses in the Company's ICOFR, commensurate with future growth of the Company, it may expand the number of skilled and learned individuals involved in the accounting function to enhance segregation of duties. Third-party expert advisors may be consulted in connection with complex accounting matters or any non-routine accounting transactions that may arise.

There have been no significant changes to the Company's ICOFR during the quarter ended June 30, 2010, which have materially affected, or are reasonably likely to materially affect, the Company's ICOFR.

#### **Additional Information**

Additional information regarding the Company and its business and operations, including the annual information form ("AIF") is available on the Company's profile at [www.sedar.com](http://www.sedar.com). Copies of the AIF can also be obtained by contacting the Company at WestFire Energy Ltd. 810, 555 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 3E7 or by e-mail at [sburtt@westfireenergy.com](mailto:sburtt@westfireenergy.com). This information is also accessible on the Company's web site at [www.westfireenergy.com](http://www.westfireenergy.com).

#### **Outlook**

In the second quarter of 2010, WestFire upwardly revised its 2010 capital expenditure budget to \$80 million. This capital program includes the drilling of 49 (46 net) wells which represents 73% of the total capital expenditures. A total of 25 (21.3 net) wells have been drilled in the first half of 2010. Production additions from wells drilled plus those planned in the last half of the year from this expanded capital budget has allowed the Company to increase its 2010 guidance for average production to 2,750 boepd (greater than 50% oil) and December 2010 average production rate of 3,600 boepd (greater than 60% oil), which is approximately 71% higher than our 2009 exit rate. During Q3 2010, netbacks will be affected by weak gas prices and the additional operating expenses resulting from the annual property tax payments.

The Company believes that it is well positioned to execute its business strategy with an extensive, resource-based drilling inventory focused on the Viking formation. The drilling inventory includes in excess of 500 potential horizontal Viking oil development locations which represent numerous years of drilling. WestFire is in the enviable position of having a clean balance sheet, unused bank lines, a large inventory of light oil drilling opportunities and a growing production base that is oriented towards light oil.

#### **Legal advisories**

##### ***Oil, Natural Gas Liquids ("NGL's"), and Natural Gas - Conversions to Boe's***

*The calculation of barrels of oil equivalent ("boe") is based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil to estimate relative energy content and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation.*

#### **Non-GAAP Measurements**

*Readers are cautioned that this MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with GAAP as an indicator of WestFire's performance. The reconciliation between funds flow from operations and cash provided by operating activities is as follows:*

	<i>Three Months Ended June 30</i>		<i>Six Months Ended June 30</i>	
	<b>2010</b>	2009	<b>2010</b>	2009
<i>Cash provided by operating activities</i>	<b>3,091,852</b>	\$ 2,870,677	<b>9,769,469</b>	\$2,326,004
<i>Change in non-cash working capital</i>	<b>1,454,073</b>	(816,106)	<b>44,534</b>	1,714,247
<i>Funds flow from operations</i>	<b>\$ 4,454,925</b>	\$ 2,054,571	<b>\$ 9,814,003</b>	\$4,040,251

*WestFire also presents funds flow from operations per share, whereby funds flow from operations is divided by the weighted average number of shares outstanding to determine per share amounts. Netbacks are also presented, which represents WestFire's revenue per boe, less per boe royalties, operating expenses and transportation expenses, in order to determine the amount of funds generated by each boe produced.*

### **Forward-Looking Statements**

*In the interest of providing WestFire shareholders and potential investors with information regarding the Company, including management's assessment of WestFire's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.*

*Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause WestFire's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.*

*These risks and uncertainties include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in WestFire's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids; WestFire's ability to replace and expand oil and gas reserves; risks associated with technology; its ability to generate sufficient cash from operations to meet its current and future obligations; WestFire's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; WestFire's ability to secure adequate product transportation; changes in environmental and other regulations or the interpretations of such regulations; political and economic conditions; terrorist threats; risks associated with potential future lawsuits and regulatory actions made against WestFire; WestFire's ability to utilize all of its tax pools and investment tax credits; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by WestFire.*

*Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although WestFire believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and WestFire does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.*

## Financial Statements

### Consolidated Balance Sheets

Unaudited

	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,947,688	\$ 273,871
Accounts receivable	8,126,197	6,455,647
Risk management contracts (note 9)	2,110,548	-
Future tax asset	9,303,000	9,971,000
Prepaid expenses and deposits	516,023	476,831
	<b>23,003,456</b>	17,177,349
Property, plant and equipment (note 3)	139,824,931	109,954,870
Future tax asset	50,857,000	52,795,000
Risk management contracts (note 9)	262,223	-
Goodwill (note 2)	1,489,000	-
	<b>\$ 215,436,610</b>	\$ 179,927,219
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,445,196	\$ 10,410,495
Risk management contracts (note 9)	-	174,730
	<b>13,445,196</b>	10,585,225
Asset retirement obligations (note 5)	13,313,653	11,018,443
	<b>26,758,849</b>	21,603,668
<b>Shareholders' Equity</b>		
Share capital (note 6)	175,346,557	146,360,515
Contributed surplus (note 6c)	2,668,192	1,685,008
Retained earnings	10,663,012	10,278,028
	<b>188,677,761</b>	158,323,551
	<b>\$ 215,436,610</b>	\$ 179,927,219
Commitments (note 8)		

See accompanying notes to financial statements.

**Consolidated Statements of Income, Comprehensive Income and Retained Earnings**

Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenue:</b>				
Petroleum and natural gas	\$ 9,290,475	\$ 4,224,631	20,108,592	\$ 9,001,166
Interest and other revenue	3,762	16,605	27,634	(4,625)
Crown and other royalties	(775,916)	(146,299)	(2,025,883)	(1,117,075)
	<b>8,518,321</b>	4,094,937	<b>18,110,343</b>	7,879,466
Realized gain on financial instruments (note 9)	615,195	569,065	821,453	2,198,492
Unrealized gain (loss) on financial instruments (note 9)	563,242	(720,841)	2,547,501	(2,042,486)
	<b>9,696,758</b>	3,943,161	<b>21,479,297</b>	8,035,472
<b>Expenses:</b>				
Operating	3,352,151	1,891,222	6,758,550	4,255,678
Transportation	261,017	163,090	507,978	294,288
Interest	210,765	72,223	250,496	312,048
General and administrative	715,815	461,391	1,479,449	979,803
Provision for (recovery of) uncollectible accounts	(8,431)	3,351	(8,431)	1,592
Stock based compensation (note 6e)	640,394	226,841	851,804	452,978
Depletion, depreciation and accretion	5,448,841	2,806,610	10,568,716	6,117,860
	<b>10,620,552</b>	5,624,728	<b>20,408,562</b>	12,414,247
Income (loss) before taxes	(923,794)	(1,681,567)	1,070,735	(4,378,775)
Provision for (recovery of) income taxes				
Capital and current income taxes	56,274	37,833	129,751	237,308
Future income tax expense (recovery)	(138,000)	(452,000)	556,000	(1,235,000)
	<b>(81,726)</b>	(414,167)	<b>685,751</b>	(997,692)
Net income (loss) and comprehensive income (loss)	<b>(842,068)</b>	(1,267,400)	<b>384,984</b>	(3,381,083)
Retained earnings, beginning of the period	11,505,080	1,527,946	10,278,028	3,641,629
<b>Retained earnings, end of the period</b>	<b>\$ 10,663,012</b>	\$ 260,546	<b>\$ 10,663,012</b>	\$ 260,546
Net income (loss) per share:				
Per share basic and diluted	\$ (0.02)	\$ (0.06)	\$ 0.01	\$ (0.16)
Weighted average common shares				
Basic	36,758,831	21,887,153	35,979,044	21,165,280
Diluted	37,171,070	21,887,153	36,381,230	21,165,280

See accompanying notes to financial statements.

**Consolidated Statements of Cash Flows**

Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cash provided by (used in):				
<b>Operating activities:</b>				
Net income (loss) for the year	\$ (842,068)	\$ (1,267,400)	\$ 384,984	\$ (3,381,083)
Add (deduct) items not affecting cash:				
Depletion, depreciation and accretion	5,448,841	2,806,810	10,568,716	6,117,860
Unrealized loss (gain) on financial instruments	(563,242)	720,841	(2,547,501)	2,042,486
Future income taxes expense (recovery)	(138,000)	(452,000)	556,000	(1,235,000)
Stock based compensation	640,394	226,841	851,804	452,978
Employee stock savings plan	-	19,679	-	40,663
Loss on sale of non oil and gas assets	-	-	-	2,347
	4,545,925	2,054,571	9,814,003	4,040,251
Change in non-cash working capital	(1,454,073)	816,106	(44,534)	(1,714,247)
	3,091,852	2,870,677	9,769,469	2,326,004
<b>Financing activities:</b>				
Decrease in bank debt	(4,303,055)	(13,094,038)	-	(5,627,826)
Proceeds of share issue net of issue costs	28,514,360	19,880,975	28,692,499	19,880,975
	24,211,305	6,786,937	28,692,499	14,253,149
<b>Investing activities:</b>				
Petroleum and natural gas properties	(11,847,036)	(9,009,434)	(29,249,328)	(11,615,038)
Corporate acquisition	(8,007,027)	-	(8,007,027)	-
Proceeds from the sale of assets	-	-	-	9,600
Change in non-cash working capital	(4,501,406)	(1,607,848)	1,468,204	(4,928,171)
	(24,355,469)	(10,617,282)	(35,788,151)	(16,533,609)
Net increase (decrease) in cash during the period	2,947,688	(959,668)	2,673,817	45,544
Cash and cash equivalents, beginning of the period	-	1,005,212	273,871	-
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 2,947,688</b>	<b>\$ 45,544</b>	<b>\$ 2,947,688</b>	<b>\$ 45,544</b>
Supplementary disclosure				
Cash interest paid	\$ 210,765	\$ 72,223	\$ 250,496	\$ 312,048
Cash taxes paid	\$ 56,274	\$ 37,833	\$ 129,751	\$ 237,308

See accompanying notes to financial statements.

## Notes to the Consolidated Financial Statements

For six months ended June 30, 2010 and 2009

### 1. Basis of presentation

WestFire Energy Ltd. ("the Company" or "WestFire") is a public company in the business of exploration and production of crude oil, natural gas and natural gas liquids.

These consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles following the accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2009.

### 2. Corporate acquisition

#### (a) Acquisition of Exceed Energy Inc.

The Company acquired all of the issued and outstanding shares of Exceed Energy Inc. ("EEI") pursuant to a share exchange on December 18, 2009 whereby the Company issued 645,229 common shares valued at \$5.00 per common share, in exchange for all of the issued and outstanding shares of EEI. The acquisition is accounted for by the purchase method, with the assets and liabilities recorded at their fair value as follows:

Net assets acquired:	
Accounts receivable and prepaid expenses	\$ 355,841
Property, plant and equipment	4,584,674
Future tax asset	1,661,000
Accounts payable	(1,191,548)
Bank overdraft	(1,830,000)
Asset retirement obligations	(353,822)
Total purchase price	\$ 3,226,145

Consideration given:

Common shares (645,229 shares at \$5.00 per share)	\$ 3,226,145
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As a condition of the acquisition of EEI, 25% of the 645,229 shares issued representing approximately 161,306 shares were been placed in escrow pending the resolution of an audit by the Canada Revenue Agency as to the renounced flow through expenditures for flow through shares issued by EEI. As the audit did not result in any adjustments, these shares were released from escrow in June 2010.

This acquisition is accounted for by the purchase method, as prescribed by CICA Section 1581. CICA Section 1581 was replaced by CICA Section 1582 "Business Combinations" and adopted by WestFire on January 1, 2010 prospectively. There is no requirement to restate for the new standard, therefore this acquisition is not comparable to any acquisitions made in 2010.

## 2. Corporate acquisition (continued)

### (b) Other Corporate Acquisitions

On April 30, 2010, the Company acquired all of the issued and outstanding shares of three unrelated private companies for cash totaling \$8,007,027. These unrelated companies were grouped for disclosure purposes as they were all acquired on the same date and owned similar assets. These acquisitions were accounted for using the purchase method as prescribed by CICA Section 1582 "Business Combinations" which was adopted prospectively by WestFire on January 1, 2010.

The assets and liabilities were recorded at their fair value as follows:

Net assets acquired:	
Cash	\$ 389,288
Accounts receivable and prepaid expenses	191,760
Property, plant and equipment	9,775,780
Goodwill	1,489,000
Accounts payable	(74,021)
Future tax liability	(2,111,000)
Asset retirement obligations	(1,653,780)
<b>Total purchase price</b>	<b>\$ 8,007,027</b>

Consideration given:	
Cash	\$ 8,007,027

## 3. Property, plant and equipment

	June 30, 2010		
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 170,646,953	\$ 30,926,725	\$ 139,720,228
Office equipment	186,559	81,856	104,703
	<b>\$ 170,833,512</b>	<b>\$ 31,008,581</b>	<b>\$ 139,824,931</b>

	December 31, 2009		
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 130,525,570	\$ 20,682,725	\$ 109,842,845
Office equipment	176,464	64,439	112,025
	<b>\$ 130,702,034</b>	<b>\$ 20,747,164</b>	<b>\$ 109,954,870</b>

During the six months ended June 30, 2010, the Company capitalized general and administrative expenses in the amount of \$806,348 (June 30, 2009 - \$409,657) related to acquisition, exploration and development activities.

As at June 30, 2010, unproved oil and gas properties and salvage value amounting to \$22,486,318 (December 31, 2009 - \$12,156,971) were excluded from the depletion and depreciation calculation. Future development costs on proved undeveloped reserves of \$13,324,000 (December 31, 2009 - \$5,748,000) are included in the depletion calculation for the six months ended June 30, 2010.

#### 4. Bank debt

At June 30, 2010, the Company had a revolving credit facility in the amount of \$42,000,000 (December 31, 2009 - \$20,000,000) with a Canadian financial institution. The interest rate charged on the bank facility ranges from the bank's prime plus 1.0% to prime plus 2.0% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the facility will be reviewed on May 31, 2011. This facility is secured by the assets of the Company.

#### 5. Asset retirement obligation

The total future asset retirement obligation was estimated by management based on the expected cost to abandon and restore the well sites and the facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated that the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2010 was \$22,680,795 (December 31, 2009 - \$18,793,885) which will be incurred between 2010 and 2020. The Company used a credit adjusted risk free rate of 7.5% to calculate the present value of the asset retirement obligations and an inflation rate of 2% was used to inflate the costs.

Changes to the asset retirement obligations were as follows:

	June 30, 2010	December 31, 2009
Balance, beginning of period	\$ 11,018,443	\$ 6,609,156
Liabilities incurred	279,205	234,683
Liabilities acquired	1,653,780	4,859,788
Accretion	307,299	363,761
Dispositions	-	(71,968)
Revision to estimates	54,926	(976,977)
Balance, end of period	\$ 13,313,653	\$ 11,018,443

#### 6. Share capital

##### (a) Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of non-voting common shares.

##### (b) Common shares, issued and outstanding

	Number of shares	Amount
Balance, December 31, 2008	20,435,382	\$ 79,096,127
Issued for cash <sup>(i)</sup>	5,267,480	18,436,180
Issued for cash <sup>(ii)</sup>	362,809	1,541,938
Issued for oil and gas properties <sup>(iii)</sup>	447,059	1,900,001
Issued for cash <sup>(iv)</sup>	8,000,000	45,040,000
Issued for shares of Exceed Energy Inc. <sup>(v)</sup>	645,229	3,226,145
Tax effect of flow through shares	-	(373,000)
Share issue expenses (net of \$932,000 of taxes)	-	(2,506,876)
Balance, December 31, 2009	35,157,959	\$ 146,360,515
Issued pursuant to the 2009 Employee Stock Purchase Plan <sup>(vi)</sup>	52,357	197,509
Issued on option exercise <sup>(vii)</sup>	31,666	156,664
Issued on option exercise <sup>(viii)</sup>	43,333	204,998
Issued for cash <sup>(ix)</sup>	3,750,000	30,000,000
Tax effect of flow through shares	-	(416,000)
Transfer from contributed surplus on exercise of stock options	-	133,832
Share issue expenses (net of \$477,000 of taxes)	-	(1,290,961)
Balance, June 30, 2010	39,035,315	\$ 175,346,557

## 6. Share capital (continued)

- (i) During the second quarter of 2009, the Company completed private placements issuing 5,267,480 common shares at an issue price of \$3.50 per common share raising gross proceeds of \$18,436,180 before issue costs.
- (ii) During the second quarter of 2009, the Company completed private placements issuing 362,809 flow through common shares at an issue price of \$4.25 per common share raising gross proceeds of \$1,541,938 before issue costs.
- (iii) On June 18, 2009, the Company acquired oil and natural gas assets for \$9,846,458 paying cash of \$7,946,457 and issuing 447,059 common shares valued at \$4.25 per share.
- (iv) On December 18, 2009, the Company completed a private placement issuing 8,000,000 common shares at an issue price of \$5.63 per common share raising gross proceeds of \$45,040,000 before issue costs.
- (v) On December 18, 2009, the Company closed the purchase of all of the issued and outstanding shares of Exceed Energy Inc. for \$3,226,145. WestFire issued 645,229 common shares valued at \$5.00 per share.
- (vi) On February 15, 2010, the Company issued 52,357 common shares at a value of \$197,509 pursuant to the 2009 Employee Stock Option Savings Plan.
- (vii) On March 11, 2010, the Company issued 31,666 common shares for cash of \$156,664 upon the exercise of options.
- (viii) On April 21, 2010 the Company issued 43,333 common shares for cash of \$204,998 upon the exercise of options.
- (ix) On May 25, 2010 the Company issued 3,750,000 common shares at an issue price of \$8.00 per share for gross proceeds of \$30 million.

### (c) Contributed surplus

Balance, December 31, 2008	\$ 565,599
Stock based compensation	1,119,409
Balance, December 31, 2009	\$ 1,685,008
Stock based compensation	1,117,016
Reclass to share capital upon stock option exercise	(133,832)
Balance, June 30, 2010	\$ 2,668,192

### (d) Stock options

The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding common shares of the Company. The maximum number of common shares granted to any one optionee during a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. These options have a term of five years to expiry and have a three year vesting period from the date of grant.

	Number Of Options	Weighted Average Exercise Prices
Balance, December 31, 2008	1,852,300	\$ 5.16
Granted	60,000	\$ 3.63
Balance, December 31, 2009	1,912,300	\$ 5.12
Granted	1,272,000	\$ 8.03
Forfeited	(43,334)	\$ 5.50
Exercised	(74,999)	\$ 4.95
Balance, June 30, 2010	3,065,967	\$ 6.33

## 6. Share capital (continued)

Exercise price (\$/share)	Outstanding options			Exercisable options	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of options exercisable	Weighted average exercise price (\$/share)
\$3.50	30,000	4.1	\$3.50	5,000	-
\$3.75	449,400	2.6	\$3.75	272,932	\$3.75
\$5.00	495,400	2.8	\$5.00	326,918	\$5.00
\$6.00	819,167	3.4	\$6.00	264,165	\$6.00
\$8.03	1,257,000	4.8	\$8.03	-	-
\$8.27	15,000	4.8	\$8.27	-	-
	3,065,967	3.8	\$6.33	869,015	\$4.90

### (e) Stock-based compensation

Compensation costs attributable to share options granted to employees or directors are measured at fair value at the grant date and expensed or capitalized over the expected vesting time frame with a corresponding increase to contributed surplus. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions used for the options granted in the first quarter of 2010: dividend yield – nil, expected volatility 75%, risk-free interest rate 2.3%, and weighted average life of 5.0 years. Forfeitures are recognized as they occur. The weighted average fair value of stock options granted during the six months ended June 30, 2010 was \$5.30 per option. There were no options granted during the first six month of 2009.

## 7. Related party transactions

The following transactions with related parties were recorded at the exchange amount:

- (a) A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the six months ended June 30, 2010, included in general and administrative expenses, share issue expenses and transaction costs are amounts totaling \$ 80,425 (2009 - \$49,563) and \$96,901 (2009 - \$80,988) respectively, charged to the Company by BDP. At June 30, 2010, \$177,326 (December 31, 2009 - \$560,934) was included in accounts payable.
- (b) During the second quarter of 2010, the Company submitted \$24,900 to the Canada Revenue Agency on behalf of an employee for tax on stock options exercised during the quarter. This amount is recoverable from the employee and at June 30, 2010 was included in accounts receivable.

## 8. Commitments

- (a) The Company has a commitment to lease office space for \$46,883 per month from March 1 to November 30, 2010. The Company negotiated an extension to this lease for \$27,094 per month from December 1, 2010 to November 30, 2013. A portion of the office space has been subleased until November 30, 2010 for \$6,000 per month. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$ 260,554	\$ (30,000)	\$ 230,554
2011	\$ 325,128	-	\$ 325,128
2012	\$ 325,128	-	\$ 325,128
2013	\$ 298,034	-	\$ 298,034

- (b) As part of the acquisition of Racing Resources Ltd. on November 14, 2008, the Company assumed a commitment for an office lease, at \$11,520 per month until December 31, 2012. The Company has sublet this space for the balance of the lease. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$ 69,120	\$ (64,218)	\$ 4,902
2011	\$ 138,237	\$ (79,657)	\$ 58,580
2012	\$ 138,237	\$ (79,657)	\$ 58,580

- (c) At June 30, 2010, the Company had committed to vehicle leases for the purposes of field operations. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31,	
2010	\$ 54,998
2011	\$ 41,288
2012	\$ 3,231

- (d) During the second quarter of 2009, the Company issued flow-through common shares and has until December 31, 2010 to expend \$1,541,938 on qualifying flow-through expenditures and to renounce those expenditures to the investors. The Company had incurred all of these expenditures as of June 30, 2010 and renounced the related tax benefits in February of 2010.
- (e) During the second quarter of 2010, WestFire committed to drill a minimum of two horizontal wells in West Central Saskatchewan. The commitment is pursuant to a lease option agreement with an industry partner. The company expects to satisfy this drilling commitment at an estimated cost of \$2,800,000. There will be a penalty of \$750,000 per horizontal well if not drilled by October 2011.

## 9. Financial instruments

### Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors. The Company has entered into several financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital.

The Company has outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel or GJ (Cdn \$)	Commencement date	Termination date
<b>Oil and NGL</b>				
Swap (WTI)	200 barrels per day	\$83.60	April 2010	September 2010
Swap (WTI)	150 barrels per day	\$85.10	July 2010	September 2010
Costless Collar (WTI)	100 barrels per day	Floor \$75.00 Ceiling \$96.00	July 2010	December 2010
Swap (WTI)	250 barrels per day	\$85.50	October 2010	December 2010
Costless Collar (WTI)	250 barrels per day	Floor \$75.00 Ceiling \$97.00	October 2010	December 2010
Swap (WTI)	200 barrels per day	\$85.40	January 2011	June 2011
Costless Collar (WTI)	200 barrels per day	Floor \$75.00 Ceiling \$95.00	January 2011	June 2011
Costless Collar (WTI)	150 barrels per day	Floor \$75.00 Ceiling \$98.35	July 2010	September 2010
Costless Collar (WTI)	100 barrels per day	Floor \$80.00 Ceiling \$96.80	January 2011	June 2011
Swap (WTI)	100 barrels per day	\$89.00	January 2011	June 2011
Swap (WTI) <sup>(1)</sup>	150 barrels per day	\$84.50	July 2011	September 2011
Swap (WTI) <sup>(1)</sup>	150 barrels per day	\$86.40	July 2011	September 2011
Costless Collar (WTI) <sup>(1)</sup>	150 barrels per day	Floor \$75.00 Ceiling \$92.20	July 2011	September 2011
Costless Collar (WTI) <sup>(1)</sup>	150 barrels per day	Floor \$75.00 Ceiling \$95.10	July 2011	September 2011
<b>Natural Gas</b>				
Swap (AECO)	1,250 GJ's per day	\$5.35	November 2009	October 2010
Swap (AECO)	1,250 GJ's per day	\$5.95	November 2009	October 2010
Swap (AECO)	750 GJ's per day	\$5.02	January 2010	December 2010
Swap (AECO)	2,000 GJ's per day	\$5.83	November 2010	March 2011
Swap (AECO)	500 GJ's per day	\$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ's per day	\$5.48	April 2011	October 2011

(1) Entered into subsequent to June 30, 2010

At June 30, 2010, a current asset of \$2,110,548 and a long term asset of \$262,223 (December 31, 2009 – current liability of \$174,730) was recorded on the Company's balance sheet resulting in an unrealized derivative gain of \$2,547,501 for the six months ended June 30, 2010 (2009 – loss of \$2,042,486).

## Corporate Information

### Directors

Ed Chwyl<sup>(2) (3)</sup>  
Victoria, B.C.

John A. Brussa, LL.B.<sup>(3)</sup>  
Calgary, Alberta

Raymond T. Chan, CA<sup>(1)</sup>  
Calgary, Alberta

Christopher L. Fong, P.Eng.  
Calgary, Alberta<sup>(1)</sup>

Lowell E. Jackson, P.Eng.  
Calgary, Alberta

Michael McGovern<sup>(1) (2) (3)</sup>  
Houston, Texas

- (1) Member of the Audit Committee
- (2) Member of the Reserve Committee
- (3) Member of the Compensation Committee

### Auditors

PricewaterhouseCoopers LLP

### Evaluation Engineers

GLJ Petroleum Consultants

### Banker

ATB Financial

### Legal Counsel

Burnet, Duckworth and Palmer LLP

### Officers

Lowell E. Jackson, P.Eng.  
President and CEO

Frank P. Muller, P.Geol.  
Senior Vice President

D. Stephen Burttt, CA  
Vice President, Finance and CFO

Darrin R. Drall, P.Eng.  
Vice President, Engineering

A. Caroline Banks, CA  
Controller

Alan T. Pettie, LL.B.  
Corporate Secretary

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